

## Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 CIAE-00 INR-07 L-02 NSAE-00 NSC-05

PA-01 PRS-01 SP-02 SS-15 USIA-06 EB-07 COME-00 TRSE-00

FEA-01 INT-05 AID-05 CIEP-01 OMB-01 SAM-01 OPIC-03

/074 W

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P 021930Z MAY 75

FM AMEMBASSY KINGSTON

TO SECSTATE WASHDC PRIORITY 7575

C O N F I D E N T I A L SECTION 1 OF 2 KINGSTON 01694

OE.O. 11652: GDS

TAGS: EINV, US, JM

SUBJECT: GOJ ACQUISITION ESSO REFINERY

REFS: (A) KINGSTON 1614; (B) STATE 101486

1. I DISCUSSED ESSO REFINERY TAKEOVER WITH TOM POINDEXTER, LOCAL MANAGER, AT LENGTH APRIL 30. HAVE ALSO TALKED WITH G. ARTHUR BROWN AND OTHERS.

2. GOJ PROPOSAL WAS CONTAINED IN TWO PARAGRAPH LETTER APRIL 25 FROM P.J. PATTERSON, MINISTER OF TRADE AND INDUSTRY, ADVISING GOJ WISHED TO ACQUIRE REFINERY OPERATION AND

ADVISING THAT G. ARTHUR BROWN, PRESIDENT BANK OF JAMAICA, WOULD NEGOTIATE FOR GOVERNMENT. TONE OF LETTER WAS PREEMPTORY AND A SURPRISE TO ESSO AS INDICATED IN STATE 101486, ALTHOUGH PREVIOUS DISCUSSIONS I HAVE HAD WITH POINDEXTER INDICATED HE WAS NOT UNAWARE OF THE POSSIBILITY OF THE GOJ ACTION, NOR, IF THE PRICE WERE RIGHT, OPPOSED TO THE SALE.

3. THE SAME DAY POINDEXTER CALLED ON THE MINISTER, HIS PERMANENT SECRETARY BRICE AND ARTHUR BROWN, WHO CON-  
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FIRMED THAT THE LETTER COVERED THE INTENTION OF THE

GOVERNMENT "TO SECURE CONTROL OF A VITAL INDUSTRY."

4. I AM INFORMED BY WINSTON MAHFOOD, PRESIDENT OF THE JAMAICA ASSOCIATION OF MANUFACTURERS THAT HE AND SOME OF HIS DIRECTORS WERE CALLED IN ALSO ON APRIL 25 BY MINISTER PATTERSON AT THE REQUEST OF THE PRIME MINISTER AND INFORMED OF THE GOVERNMENT'S INTENTION TO ACQUIRE THE REFINERY, WHICH HAD BECOME NECESSARY BY REASON OF AGREEMENTS REACHED WITH VENEZUELA DURING PRIME MINISTER'S VISIT APRIL 17-19. (MAHFOOD ACCOMPANIED THE PM ON THIS TRIP.) PATTERSON TOLD MAHFOOD THAT THE TAKEOVER WOULD BE PROPERLY NEGOTIATED AND THAT FAIR PRICE WOULD BE PAID. MAHFOOD STATES THAT PREVIOUS CONVERSATIONS WITH POINDEXTER INDICATED ESSO WAS INTERESTED IN SELLING BUT WOULD LIKE TO RETAIN MANAGEMENT CONTRACT. MAHFOOD SAYS HE ADVISED MINISTER HE FELT IT ESSENTIAL IN ORDER TO INSURE ADEQUATE TECHNICAL SUPERVISION THAT ESSO MANAGE AND THAT MINISTER AGREED. MAHFOOD FELT THAT APPOINTMENT OF BROWN GUARANTEED FAIR NEGOTIATION.

5. POINDEXTER PROVIDES FOLLOWING BACKGROUND:

A. REFINERY OPERATED BY ESSO WEST INDIES, LTD., A BAHAMIAN CORPORATION 100 PERCENT OWNED BY ESSO STANDARD S.A., LTD., ALSO BAHAMIAN (FORMERLY PANAMANIAN) AND 100 PERCENT OWNED BY EXXON.

B. CAPACITY OF REFINERY IS APPROXIMATELY 36,000 BOD, OPERATING ON 26 API GRAVITY SPIKED CRUDE. CRUDE OFFERED BY VENEZUELA IS REPORTEDLY 18 GRAVITY AT 10.84 DOLS PER BBL. (COMMENT: NO GIFT), WHICH WOULD REQUIRE ADDITIONAL INVESTMENT TO HANDLE.

C. MARKET ON ISLAND IS APPROXIMATELY 19 MILLION BBL. PER YEAR. 12 MILLION BBL. PROVIDED BY REFINERY AND 7 MILLION BBL. IMPORTED, MOSTLY BY SHELL.

D. THE REFINERY COMPANY EARNED SIX PERCENT ON INVESTMENT IN 1974 AS RESULT OF PRICE INCREASE GRANTED BY GOJ AFTER PREVIOUS LOSSES.

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6. ACQUISITION OF MARKETING (TEXACO, ESSO AND SHELL) IS NOT INCLUDED IN CURRENT NEGOTIATIONS. THEY WOULD BE VULNERABLE IN EVENT OF TAKEOVER OF REFINERY. SHELL MANAGER, MICHAEL COOPER, HAS EXPRESSED CONCERN. ESSO HOPES TO INCLUDE MARKETING IN NEGOTIATIONS.

7. PRESENT ESSO CONTRACT WITH GOJ IS VALID UNTIL 1982 AND CONTAINS NO PROVISION FOR RENEGOTIATION

OR GOVERNMENT ACQUISITION. POINDEXTER STATES NO  
DECISION HAS BEEN MADE BY EXXON BOARD AS TO WHETHER  
IT WILL NEGOTIATE AS REQUESTED OR NOT. DECISION  
WILL BE MADE AFTER VISIT OF GENERAL MANAGER FOR  
CARIBBEAN, FRANK BENNAR, WHO WILL BE ARRIVING KINGSTON  
MAY 5 AND EXPECTS TO SEE BROWN MAY 6 FOR INTIAL  
DISCUSSION. WILL ASLO BE VISITING ALUMINUM COMPANY  
CUSTOMERS.

8. PEATE, MARWICK AND MITCHELL WERE HIRED LAST YEAR  
BY GOJ TO EVALUATE REFINERY OPERATION. SUB-CONTRACT  
WAS GIVEN TO PERWIN AND GERTZ, WHO ACTED PREVIOUSLY  
FOR TRINIDAD GOVERNMENT REGARDING REFINERY THERE.  
ANY INFORMATION REQUESTED HAS BEEN VOLUNTARILY PROVIDED  
BY ESSO. POINDEXTER CONFIDENT THAT PERWIN AND GERTZ  
WOULD NOT VALUE REFINERY BELOW CURRENT MARKET OF  
ONE MILLION DOS PER 1,000 BOD CAPACITY OR 36 TO 37  
MILLION DOLS. PRESENT BOOK VALUE 10 TO 11 MILLION DOLS.  
INVENTORY APPROXIMATELY 16 MILLION DOLS AND RECEIVABLES  
ABOUT 14 MILLION DOLS.

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/074 W

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P 021930Z MAY 75

FM AMEMBASSY KINGSTON

TO SECSTATE WASHDC PRIORITY 7576

C O N F I D E N T I A L SECTION 2 OF 2 KINGSTON 01694

9. G. ARTHUR BROWN TOLD ME HE HAD BEEN CHOSEN TO  
NEGOTIATE FOR GOJ SINCE HE HAD NEGOTIATED ORIGINAL  
CONTRACT WITH ESSO. WHEN I ASKED HIM WHAT GENERAL  
RANGE OF FIGURES WERE CONCERNED, HE SAID THAT HE

NEEDED MORE INFORMATION REGARDING THE INVENTORY WHICH HE THOUGHT WAS OF MORE VALUE THAN -HE REFINERY AND THAT HE FELT THERE WERE SOME TAX CONSIDERATIONS SINCE THE OWNING COMPANY WAS PANAMANIAN (SEE PARA 5). HE THOUGHT THE REFINERY WAS WORTH 7 TO 8 MILLION DOLS. HE SAID THE NEGOTIATIONS WOULD BE "FAIR AND REASONABLE".

10. POINDEXTER HAD ORIGINALLY OBTAINED INFORMATION THAT THE PRIME MINISTER WISHED NEGOTIATIONS CONCLUDED BY MAY 18, BUT FELT THIS DEADLINE MIGHT NO LONGER BE IN EFFECT, SINCE BROWN HAD EXPRESSED A DESIRE FOR INITIAL "EDUCATIONAL" MEETINGS AND THAT ANY CONCLUSION COULD NOT BE EXPECTED BEFORE MID-JUNE. HE SAID THE COMPOSITION OF THE NEGOTIATING TEAM (SEE PARA 2 REF (A)) HAD CHANGED SOMEWHAT; JIM LIM, CHAIRMAN OF THE NATIONAL OIL CORPORATION, AND ROY CHIN OF THE LUANA DEVELOPMENT CORPORATION HAD BEEN ADDED WHILE RODERICK RAINFORD OF THE MINISTRY OF TRADE AND INDUSTRY WAS DROPPED. HE FELT THAT BROWN, LIM, AND CHIN (WHO FORMERLY WORKED FOR ESSO AS AN ECONOMIST) WERE CAPABLE  
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AND REASONABLE PEOPLE.

COMMENT: I AM INCLINED TO BELIEVE THAT ESSO WILL NEGOTIATE. HOWEVER, I AM CONCERNED ABOUT THE CONSIDERABLE INDICATED DISPARITY IN PRICE AT THIS STAGE, ESPECIALLY WITH INFORMED ADVICE AVAILABLE TO THE GOJ. THERE MAY ALSO BE TIME PRESSURES "A LA BAUXITE DISCUSSIONS" SINCE THE GOJ BUDGET SESSION STARTS MAY 15, AND THERE MAY BE UNKNOWN BUILT-IN SCHEDULES IN THE VENEZUELAN DEAL THE GOVERNMENT IS TRYING TO PUT TOGETHER. HOWEVER, THE MAKE-UP OF THE GOJ NEGOTIATING TEAM GIVES CONFIDENCE THAT THERE WILL BE NO ARBITRARY TAKE IT OR LEAVE IT ULTIMATUM, BARRING SPECIFIC DIRECTIVES FROM THE P.M.'S OFFICE. I HAVE TOLD BOTH BROWN AND POINDEXTER OF MY PROFOUND INTEREST IN THE NEGOTIATIONS, OUR DESIRE TO BE HELPFUL IN ANY WAY THAT WE COULD, AND SPECIFICALLY REQUESTED TO BE INFORMED WELL BEFOREHAND SHOULD A CONFRONTATIONAL SITUATION BEGIN TO BUILD UP. THEY HAVE BOTH PROMISED TO DO SO, AND I HAVE SOME CONFIDENCE THEY WILL.  
GERARD

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